

SENATE RECORD VOTE ANALYSIS

104th Congress
1st Session

Vote No. 503

October 26, 1995, 4:26 p.m.
Page S-15779 Temp. Record

BALANCED BUDGET RECONCILIATION/Direct Lending Bias, Student Loans

SUBJECT: Balanced Budget Reconciliation Act of 1995 . . . S. 1357. Domenici motion to table the Kennedy amendment No. 2959.

ACTION: MOTION TO TABLE AGREED TO, 51-48

SYNOPSIS: As reported, S. 1357, the Balanced Budget Reconciliation Act of 1995, will result in a balanced budget in seven years, as scored by the Congressional Budget Office (CBO). The bill will also provide a \$245 billion middle-class tax cut, \$141.4 billion of which will be to provide a \$500 per child tax credit.

The Kennedy amendment would increase spending by \$10.8 billion by eliminating reforms and cost-saving measures to student loan programs. As an offset, it would strike the reforms to the alternative minimum tax (AMT). First, it would eliminate the capping of the direct student loan program at 20 percent of all Federal student loans. This direct loan program was greatly expanded in the 1993 reconciliation bill. In addition to eliminating the 20 percent cap, the Kennedy amendment would also strike the interest rate increase on PLUS loans from 3.1 percent to 4 percent, would strike the accrual of interest charges on a college loan during the 6-month grace period after graduation, and would eliminate the .85 percent fee that each school will have to pay on the total amount of Federal loans given to its students and its students' parents.

Debate on a first-degree amendment to a reconciliation bill is limited to 2 hours. By unanimous consent, debate on the Kennedy amendment was further limited. Following debate, Senator Domenici moved to table the Kennedy amendment. Generally, those favoring the motion to table opposed the amendment; those opposing the motion to table favored the amendment.

NOTE: The Senate subsequently agreed to a Kassebaum amendment to eliminate some of the bill provisions on student loans that were proposed to meet reconciliation targets (see vote No. 504).

Those favoring the motion to table contended:

The only problem with our Democratic colleagues' hysterical scare campaign on student loans is that they are short on the facts,

(See other side)

YEAS (51)		NAYS (48)		NOT VOTING (0)	
Republicans (51 or 96%)	Democrats (0 or 0%)	Republicans (2 or 4%)	Democrats (46 or 100%)	Republicans (0)	Democrats (0)
Abraham	Hutchison	Cohen	Akaka	Inouye	
Ashcroft	Inhofe	Hatfield	Baucus	Johnston	
Bennett	Jeffords		Biden	Kennedy	
Bond	Kassebaum		Bingaman	Kerrey	
Brown	Kempthorne		Boxer	Kerry	
Burns	Kyl		Bradley	Kohl	
Campbell	Lott		Breaux	Lautenberg	
Chafee	Lugar		Bryan	Leahy	
Coats	Mack		Bumpers	Levin	
Cochran	McCain		Byrd	Lieberman	
Coverdell	McConnell		Conrad	Mikulski	
Craig	Murkowski		Daschle	Moseley-Braun	
D'Amato	Nickles		Dodd	Moynihan	
DeWine	Pressler		Dorgan	Murray	
Dole	Roth		Exon	Nunn	
Domenici	Santorum		Feingold	Pell	
Faircloth	Shelby		Feinstein	Pryor	
Frist	Simpson		Ford	Reid	
Gorton	Smith		Glenn	Robb	
Gramm	Snowe		Graham	Rockefeller	
Grams	Specter		Harkin	Sarbanes	
Grassley	Stevens		Heflin	Simon	
Gregg	Thomas		Hollings	Wellstone	
Hatch	Thompson				
Helms	Thurmond				
	Warner				

EXPLANATION OF ABSENCE:

- 1—Official Business
- 2—Necessarily Absent
- 3—Illness
- 4—Other

SYMBOLS:

- AY—Announced Yea
- AN—Announced Nay
- PY—Paired Yea
- PN—Paired Nay

again. The balanced budget reconciliation bill will make it easier to attend college by making more student loans than ever before and by increasing the amount available to be loaned by 50 percent. More importantly, balancing the budget will greatly reduce interest costs and will give overdue tax relief that together will make a college education much more affordable for families. The benefits of this bill more than offset the minor extra costs; the equations are simple to figure out, but simple arithmetic does not appear to be the forte of Democratic Senators.

Balancing the budget will result in a 2 percent drop in interest rates. For an \$11,000 student loan, that is savings of \$216 per year. Most families now borrow more, so the savings will be much higher. Further, a \$500 credit will be applied for each child, interest savings of around \$200 will be gained on car mortgages, and thousands of dollars per year will be saved in lower mortgage payments. Anyone who borrows money, which by definition includes everyone who receives a student loan, will benefit under this bill.

To balance the budget some cut backs had to be made. The Labor Committee was instructed to achieve \$10.78 billion in savings. The two means of achieving reconciliation savings are with user fees and with making reductions in direct spending programs. For the Labor Committee, the only direct spending programs within its jurisdiction of sufficient size are the student loan programs. This bill will impose a new .85 percent participation fee on schools, not students. Even if the schools were to pass on the total cost of that fee to their students, for a typical public university student the annual increased cost would only be \$7 per year. This fee will result in \$1.69 billion in savings. Other of the changes, such as the accrual of interest on loans during the 6-month grace period following students' graduation (the grace period will not be eliminated, despite our colleagues repeated, false assertions that it will be), will similarly pose small burdens on students. Overall, of course, these benefits need to be weighed against the other half of the equation, which is much lower interest costs. Our colleagues would rather impose prohibitively high interest rates by driving the country ever deeper into debt, and then give more handouts; we would rather stop impoverishing Americans so they can afford to send their children to college without having to beg for more of their money back from the Federal Government.

The one savings in educational programs that really bothers liberal Senators, though, is the capping of the direct student loan program at 20 percent. This program was started as a pilot program in 1992. In 1993, though no evaluation of the program had been conducted, and though it accounted for less than 5 percent of all loans, President Clinton tried to shove a plan through Congress to do away with the guaranteed student loan program altogether by the 1997-1998 academic year. The CBO preposterously estimated that this change would result in savings of \$6.1 billion (see 103d Congress, 1st session, vote No. 74). Eventually, Democrats in Congress managed to pass a plan "to save" \$4.3 billion by increasing the direct lending program to 60 percent of the total and by cutting subsidies in the guaranteed loan program (of course, Democrats never muttered a word in opposition to their proposals to increase the costs of guaranteed student loans). In President Clinton's budget proposal for this year, he again asked for a 100 percent Federal Government takeover of the administration of student loans. The Congressional Budget Office scored that policy as saving \$4.1 billion.

From the beginning, we have found absolutely unbelievable the assumption that giving the Federal Government control over administering student loans would be cheaper than having banks administer them. The reason for the CBO estimates of savings was that it was required by law to ignore the administrative costs the Federal Government would incur in running the program. In other words, the estimates showed a cost for having the banks administer loans, and they showed that legions of bureaucrats in Washington could do the job for free. This nonsense was corrected in the 1996 budget resolution, which put the calculation of the cost of administering guaranteed student loans and direct student loans on an equal footing. Program costs for both programs, whether they are calculated on the basis of subsidy or cash-based accounting, are now treated the same. With this sensible change to honest accounting procedures, instead of estimating that the President's proposal would result in savings of \$4.1 billion, the CBO estimated that the proposal in this bill to cap the direct lending program at 20 percent will save \$600 million over the next 7 years.

Most Republican Senators find this \$600 million to be an extreme understatement. Democrats, though, believed that the Federal Government would be able to administer student loans much more cheaply and effectively than banks so they rammed this change through Congress as part of their 1993 reconciliation tax-hike bill. In 1994, with a direct loan volume of only 5 percent, the Department of Education disbursed \$700 million in direct loans, yet has failed to account for nearly 14 percent of that amount. In other words, it has "lost" nearly \$100 million of the taxpayers money--it has no idea what has happened to it. Democrats would love to reward this sterling performance of the Department of Education by giving it 100 percent of the loan volume, so it can lose 20 times as much each year. This loss rate does not even take into account the Department's losses from giving unwise loans that end up in default, nor does it consider its inexperience in collecting amounts due. This proposal for direct lending, as we see it, could not possibly lead to savings. Billions of dollars will be "lost," billions more will be wasted in unnecessary administrative costs that always come with Federal Government management, and multiples thereof will be added to the debt due to the inability to collect from bad debts. Further, Senators must keep in mind that direct lending makes the Federal Government borrow money to loan, instead of simply securing money that banks loan. According to former CBO director Rudy Penner, this borrowing would add \$140 billion to the public debt from 1996 through 2000. These facts do not faze Democrats--nothing can change their confidence that a great big Federal Government can do anything better than private businesses.

Many Republicans would happily do away with direct lending altogether, believing that there is already ample evidence for taking that course. Others would rather continue the program at a low level for some time in order to gather more data before making a final judgment. The compromise solution that they have agreed to among themselves is to limit direct lending to 20 percent of loan

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volume. The Democratic solution of going to 100 percent direct lending, though, is completely unacceptable to Republicans.

All of the Democrats' histrionics on this amendment have really been about their desire to have a Federal bureaucracy takeover of educational lending. On that issue, Republicans are not willing to cede. On other educational issues, though, they are very ready to cede. The Labor Committee was required to meet its targets. Having done so, the Senate is not required to stick to the Labor Committee's proposals. Our objective with this bill was to balance the budget by 2002. This bill will accomplish that objective and then some--there will be a surplus in 2002. Therefore, we have proposed a Kassebaum amendment (see vote No. 504) which would eliminate the proposals in this bill that will burden students. The cost of the Kassebaum amendment would not be more than the surplus in 2002. Thus, the Kassebaum amendment would not unbalance the budget.

Republicans believe in investing in education. No more meritorious use could be found for the surplus in this bill than to spend it on education. This bill will already increase the number of student loans from 6.6 million loans this year to 7.1 million loans next year and it will increase funding for student loans by nearly 50 percent over the next 7 years. Coupled with Republican proposals to increase the maximum Pell grant, to fund fully college work-study programs at the current level, to fund fully supplemental education opportunity grants at the current level, to fund fully TRIO programs at the current level, to fund fully historically black colleges at the current level, and to fund Perkins loans capital contributions at a level sufficient to maintain the current loan volume, it is obvious that our colleagues' claims that Republicans are out to destroy education are nothing but partisan cant. The Kennedy amendment, in sum, is a partisan stunt. Those Senators who are really interested in helping more students get a college education should join us in defeating this amendment and in voting in favor of the Kassebaum amendment to follow.

Those opposing the motion to table contended:

Senators who support the American dream of being able to afford to send one's children to college should support the Kennedy amendment. The Kennedy amendment would strike those sections from this bill that would deny that dream. Those sections include a 1 percent fee hike in PLUS loans, an elimination of the grace period for recent graduates, the imposition of a 20 percent cap on direct student loan volume, and an .85 percent school tax based on the institution's student loan volume. In our opinion, it would be difficult to construct a more destructive list of proposals. Unless the Kennedy amendment is agreed to, the proposals in this bill will result in millions of low-income Americans being denied a chance to go to college.

A 1 percent fee hike for PLUS loans alone could add \$5,000 to a family's indebtedness for a college education. Families that can barely afford to pay for college now obviously would be unable to pay an extra \$5,000. Eliminating the grace period for recent graduates is similarly ill-conceived. That provision would saddle graduates with an additional financial burden at the most critical time in their careers. They would be forced to settle for lower paying, less desirable jobs immediately upon graduation rather than taking a reasonable amount of time to secure higher paying employment that better matches their skills and desires. The .85 percent tax on schools based on their loan volumes is also a poor proposal. It would discourage schools from participating in the direct loan program, it would force them to pass on the costs to students, and it would require them to tap into their already dwindling student financial aid budgets. Like the other educational proposals in this reconciliation bill, this proposal would hurt the poorest students the most.

The most objectionable proposal in the bill, though, is its 20 percent cap on the direct lending student loan program. This program was instituted with bipartisan support in order to cut out the current sweetheart deal for banks in handling guaranteed student loans. The more the Government takes over the handling of the loan program directly, the more money it will save in reinsurance fees and other subsidies paid to banks, secondary markets, and guaranty agencies. Further, capping this program will discourage additional schools from participating in the program, and will therefore reduce opportunities for thousands of economically disadvantaged students who could not qualify for guaranteed loans. Finally, instituting a cap would effectively cap competition for the banks. If the Federal Government limited its direct lending activities, the banks would know they would have a larger private market for educational lending, and would be able to raise their interest rates.

When the Republicans' proposed cuts in direct spending educational programs are combined with their cuts in discretionary educational programs like Head Start and Goals 2000, it becomes apparent that a broad assault on America's commitment to education is underway. This assault is a terrible mistake. Education funding is an investment in America's future. The massive GI bill after World War II gave \$9 billion in today's dollars to educate returning soldiers. The result of those grants was \$8 in increased tax revenues in later years from the greater productivity of those former soldiers in their careers. Here we are not even talking about grants, we are talking about loans. In these very difficult economic times, and in this era of tough global competition, it would be a horrible mistake to cut educational funding. We therefore strongly oppose the motion to table.